

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 EURE-00 /106 W

-----073562 261906Z /47

P R 261515Z AUG 77

FM AMEMBASSY LUXEMBOURG

TO SECSTATE WASHDC PRIORITY 5900

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION GENEVA

UNCLAS LUXEMBOURG 0666

BRUSSELS ALSO FOR USEEC

PARIS ALSO FOR USOECG

GENEVA FOR MSMTN

E. O. 11652: N/A

TAGS: ECON, ELAB, EMIN, LU

SUBJECT: STEEL INDUSTRY: DECISION ON MMRA EXPECTED SHORTLY

SUMMARY: THE FINANCIALLY-TROUBLED STEEL COMPANY MMRA HAS BEEN THE SUBJECT OF SERIOUS DISCUSSIONS IN JULY AND AUGUST INVOLVING LUXEMBOURG AND BELGIAN GOVERNMENTS AND LABOR UNIONS, EC COMMISSIONER DAVIGNON, STOCKHOLDERS AND CREDITORS AND ARBED, THE MAJOR LUXEMBOURG STEEL GROUP. A RESOLUTION OF MMRA'S UNCLASSIFIED

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STATUS, INCLUDING NEW OWNERSHIP, FINANCIAL SUPPORT FOR ITS OPERATIONS, AND THE EMPLOYMENT SITUATION, IS NOW HOPED FOR AT A GOB-GOL MINISTERIAL MEETING SCHEDULED FOR MONDAY, AUGUST 29, IN BRUSSELS. END SUMMARY.

1. METALLURGIQUE ET MINIERE DE RODANGE-ATHUS (MMRA) IS A LUXEMBOURG COMPANY OWNED BY BELGIAN INTERESTS, PRIMARILY COCKERILL (33 PERCENT) AND COMPAGNIE BRUXELLES-LAMBERT (41

PERCENT). FORMED BY A MERGER IN 1973, MMRA HAS OPERATIONS ON BOTH SIDES OF THE BORDER, AT RODANGE (LUXEMBOURG) AND ATHUS (BELGIUM), EMPLOYING A TOTAL OF 4432 AT THE TWO SITES, OF WHOM 2800 ARE BELGIANS AND 828 LUXEMBOURGERS. RODANGE IS THE LARGER, AND LESS ARCHAIC PLANT, EMPLOYING OVER 2800, OF WHOM 1440 ARE BELGIANS AND 800 LUXEMBOURGERS. ATHUS HAS 1600 EMPLOYEES, OF WHOM 1438 ARE BELGIAN AND ONLY 22 LUXEMBOURGERS.

2. MMRA'S TURNOVER IN 1973 WAS 7.34 BILLION FRANCS, RISING IN BOOM YEAR 1974 UP TO 10.75 BILLION, THEN PLUNGING IN 1975 TO 6.58 BILLION, AND BACK UP TO 7.86 BILLION IN 1976. PROFITS IN 1974 OF 622 MILLION FRANCS WERE SUCCEEDED BY LOSSES OF 499 MILLION FRANCS IN 1975 AND 281 MILLION FRANCS IN 1976. STEEL PRODUCTION IN 1976 WAS 14.3 PERCENT ABOVE THAT OF 1975. BUT STILL 36 PERCENT BELOW THAT OF 1974. ACTUAL TONNAGE WAS: 1974 - 1,265,210; 1975 - 708,027; 1976 - 809,573. RAILS AND SEMI-FINISHED PRODUCTS HAVE BEEN THE COMPANY'S BEST SELLING ITEMS, WHEREAS SALES OF SECTIONS AND ESPECIALLY BARS HAVE FALLEN OFF SHARPLY.

3. CONCERN ABOUT THE FINANCIAL SURVIVAL OF MMRA CAME TO PUBLIC ATTENTION IN JULY, ALTHOUGH PREVIOUSLY THE LUXEMBOURG AND BELGIAN GOVERNMENTS PRIVATELY DISCUSSED MEANS OF SAVING, OR SALVAGING SOME OF MMRA'S ACTIVITIES, PRINCIPALLY TO AVOID UNEMPLOYMENT. A GOL CONTACT POINTED OUT THAT THE BELGIAN UNCLASSIFIED

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GOVERNMENT OFFERED 500 MILLION TO 1 BILLION FRANCS AT AN EARLY BILATERAL MEETING AS ITS CONTRIBUTION TO A RESCUE OPERATION.

-- THE LUXEMBOURG ECONOMY'S STAKE IN LOANS AND CREDITS TO MMRA AMOUNTS TO ABOUT 2.5 BILLION FRANCS FROM PUBLIC AND PRIVATE SOURCES INCLUDING 1.3 BILLION FROM THE LUXEMBOURG STATE SAVINGS BANKS. GOL ECONOMICS MINISTER MART HAS CHARACTERIZED MMRA'S SITUATION AS "DESPERATE" BUT INSISTED THAT THE SMALL LUXEMBOURG ECONOMY CAN DO NO MORE. THE GOL CLEARLY VIEWS BELGIAN GOVERNMENT FINANCIAL SUPPORT AS VITAL, AND OVERDUE, GIVEN THAT THE OVER-WHELMING MAJORITY OF MMRA WORKERS ARE BELGIAN AND OTHER RESIDENTS OF BELGIUM (3190 RESIDENTS OF BELGIUM, 1045 OF LUXEMBOURG AND 197 OF FRANCE). THE GOL HAS NOW ASKED FOR THE GOB PLEDGE AND THE CRUX OF MONDAY'S DECISION IS SEEN AS THE GOB'S WILLINGNESS TO PROVIDE A CREDIT OF APPROXIMATELY 1.2 BILLION FRANCS TOWARD OPERATING COSTS AND THE CONDITIONS FOR SUCH A CREDIT.

4. IT NOW APPEARS THAT PRIME MINISTERS THORN AND TINDEMANS AND EC COMMISSIONER DAVIGNON MET IN LATE JULY TO DISCUSS THE RESTRUCTURING OF MMRA AS WELL AS THE STATUS OF ITS WORKERS. DAVIGNON REPORTEDLY PROPOSED THAT ARBED TAKE OVER MMRA, ALTHOUGH NOT BY MEANS OF A BANKRUPTCY AND PICKING UP SELECTED

PIECES ON A COMMERCIAL BASIS. THE SOCIAL, ESPECIALLY EMPLOYMENT ASPECTS, ARE MAJOR CONSIDERATIONS TO THE TWO GOVERNMENTS. ON AUGUST 4 ECONOMICS MINISTERS MARCEL MART AND WILLY CLAES FORMULATED THE PLAN FOR A NEW HOLDING COMPANY STRUCTURE TO TAKE OVER MMRA. DETAILS OF THIS RESCUS PLAN LEAKED TO THE PRESS, ALTHOUGH THE MINISTERS HAD GIVEN ONLY GENERAL INDICATIONS THAT A PACKAGE DEAL WAS BEING ARRANGED. NOTHING WAS OFFICIALLY CONFIRMED. ARBED PROMPTLY DENIED ITS ALLEGED PARTICIPATION IN A RESTRUCTURED MMRA.

-- AFTER MORE THAN ONE ARBED PLAN AND GOVERNMENT AND LABOR UNION INSISTENCE ON MORE GUARANTEES, A NEW FINANCIAL STRUCTURE FOR MMRA HAS NOW BEEN AGREED UPON. AT LEAST FOR THE SHORT RUN THE "NEW OWNERS" OF MMRA, WITH 20 PERCENT SHARES EACH PARTY, WILL BE (1) THE ORIGINAL SHAREHOLDERS, UNCLASSIFIED

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(2) CREDITORS, (3) ARBED, (4) BELGIAN AND LUXEMBOURG GOVERNMENTS (10 PERCENT EACH), AND (5) MMRA WORKERS, WHO RENOUNCE PART OF THEIR SALARIES.

-- IN THE PROCESS, ARBED AGREES TO RETAIN 2800 WORKERS, ALTHOUGH 700 WILL IMMEDIATELY JOIN THE ANTI-CRISIS ROLLS AND BE AVAILABLE FOR PLACEMENT AT ANY JOB, EVEN OUTSIDE THE COMPANY. DETAILS OF AN EARLY RETIREMENT PLAN FOR LUXEMBOURG WORKERS ARE STILL UNDER NEGOTIATION BETWEEN ARBED AND THE GOL (55 VERSUS 58 AS AGE REQUIREMENT, VERSUS THE NORMAL 60 IN LUXEMBOURG).

COMMENT: THE LEVEL OF REDUCTION IN FORCE, ESPECIALLY BELGIAN-LUXEMBOURG SHARES, AND GOVERNMENT FINANCIAL SUPPORT LEVELS HAVE BEEN DIFFICULT ASPECTS OF THE BILATERAL DISCUSSIONS. GIVEN THE LIKELY CLOSEDOWN OF ATHUS THE MAJOR IMMEDIATE IMPACT WILL BE FELT IN BELGIUM. NONETHELESS, THE STEEL INDUSTRY RECESSION IS PARTICULARLY ACUTE IN THIS FOUR-NATION REGION OF THE EC. THE HIGH-LEVEL BILATERAL ATTENTION RECEIVED BY MMRA'S DIFFICULTIES IS PERHAPS INEVITABLE UNDER THE CIRCUMSTANCES, BUT THE ROLE OF EC COMMISSIONER DAVIGNON IS NOTEWORTHY. DESPITE ITS SCALE, THE MMRA CASE MAY ESTABLISH PRECEDENTS FOR GOVERNMENT AND EC COOPERATION IN THE RESTRUCTURING OF EUROPEAN STEEL INDUSTRIES AND THE OUTCOME WILL BE CLOSELY STUDIED. END COMMENT. PHILLIPS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: STEEL, INDUSTRY, BUSINESS FIRMS
Control Number: n/a
Copy: SINGLE
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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Format: TEL
From: LUXEMBOURG
Handling Restrictions: n/a
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Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
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Review Event:
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1470479
Secure: OPEN
Status: NATIVE
Subject: STEEL INDUSTRY: DECISION ON MMRA EXPECTED SHORTLY SUMMARY: THE FINANCIALLY-TROUBLED STEEL COMPANY MMRA HAS BEEN THE SUBJECT OF SERIOUS DISCUSSIONS I N JULY AN
TAGS: ECON, ELAB, EMIN, LU
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/8adc5b52-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009